REPUBLIC OF KENYA

NATIONAL TREASURY AND PLANNING

KENYA COUNTRY PROGRAMME 2016-2020

(Support to the Public Financial Management Reform Strategy in Kenya)

REPORT FOR THE PERIOD 1ST JULY 2017-30TH JUNE 2018

NOVEMBER 2018

ACRONYMS

AGD	Accountant General's Department
CIDPs	County Integrated Development Plans
CISA	Certified Information Systems Audit
DFC	DANIDA Fellowship Centre
GRB	Gender Responsive Budgeting
IFMIS	Information Financial Management Information System
IGFR-D	Intergovernmental Fiscal Relations Department
ISACA	Information Systems Audit and Control Association
IT	Information Technology
KGSP	Kenya Governance Support Programme
KRA	Kenya Revenue Authority
MDAs	Ministries Departments and Agencies
MTP	Medium Term Plan
OAG	Office of the Auditor General
OCOB	Office of Controller of Budget
OSR	Own Source Revenue
PAC	Parliamentary Accounts Committee
PFMR	Public Financial Management Reforms
PIC	Public Investment Committee
PSASB	Public Sector Accounting Standards Board
RAB	Registration of Accountants Board
RCPSB	Registration of Certified Public Secretaries Board
RDE	Royal Danish Embassy
SAGAs	Semi Autonomous Government Agencies
SDGs	Sustainable development Goals
TADAT	Tax Administration Diagnostic Assessment Tool
WVAT	Withholding Value Added Tax

1.0. BACKGROUND

Improved governance systems including sound public finance management contributes to economic development and poverty reduction. In Kenya, this can be confirmed by improved economic performance during the implementation period of the current ***PFMR Strategy 2013-2018.*** During this time the country experienced consistent Gross Domestic Product growth rates above five percent (5%). This can be directly attributed to; efficient revenue collection, improved budget execution and enhanced financial oversight, all elements of the strategy. This therefore remains one of the Governments priorities as outlined in the second medium term plan of the Kenya Vision 2030.

The current ***PFMR Strategy 2013 -2018*** was developed in 2012 through a consultative process involving most stakeholders and was launched in February 2013. It has a comprehensive view of PFM concerns that have been highlighted in various past internal and external reviews and proposed interventions that will be implemented to resolve the various challenges encountered in PFM. The Strategy conforms to the legal framework (Kenya Constitution 2010 and the PFM Act 2012) and is being implemented by various Ministries, Departments & Agencies (MDAs). The Strategy promotes linkages for cross-cutting issues to create synergy among various autonomous or semi-autonomous agencies. It leans heavily on capacity building for PFM implementing agencies for both National and County Governments and introduction of technology and transformation of operational procedures to improve service delivery, efficiency and effectiveness of PFM Systems. By June 2015, the PFMR Strategy (2013-18) had been under implementation for about 2½ years. A mid-term review of the Strategy was carried out to assess progress in its implementation, to identify emerging gaps and challenges in the reforms and to enlist measures to improve the implementation of the strategy in its final phase. The strategy has therefore been revised to incorporate the review findings.

2.0 INTRODUCTION AND SCOPE OF THE RDE SUPPORT TO THE PFMR STRATEGY IN KENYA

The Government of Denmark has been a key partner supporting PFM Reforms in Kenya. Under the previous Strategy the Government of Denmark (through DANIDA) supported public finance management reforms through a Contribution Agreement entered into by several Development Partners channeling their resources through a pooled basket fund that was administered by the World Bank. At the conclusion of the Contribution Agreement in August 2012 with the World Bank, some grant proceeds remained unutilized. This coincided with the lapse of the 5 year *Strategy for Revitalization of Public Financial Management in Kenya* 2006 -2011. Since several initiatives started under the strategy were yet to be completed, three Development Partners (Embassy of Denmark, Embassy of Sweden & Canadian International Development Agency) agreed to continue supporting the interventions and other transition activities as a new strategy was being developed.

This transition phase (January 2012 – March 2013) was to allow the strategy to comply with various legislations that were at the time being enacted by parliament as per the Kenya Constitution 2010. Meanwhile, the Embassy of Denmark committed additional funds under the ***Kenya Governance Support Programme (2010 -2015)*** as per the programme support agreement signed in December 2010. This programme had two components: support for the 2013 elections and the PFM component. Given that the transitory activities had been settled upon, the additional grant under the KGSP was not accessed as it was considered that the two grants would not be used concurrently. Following a mid-term review of the KGSP in May 2013 and the conclusion of the transition period, the KGSP was re-negotiated and a revised agreement for the PFM Component was signed on 21st February 2014.

The agreement committed **DKK 36 Million** (Kshs 504 Million equivalent) for a period of 2 years to support the PFM reforms. The financial and technical support was expected to enhance accountability and transparency in the public sector, strengthen tax administration, improve audit and oversight of public resources and entrench fiscal decentralization. The key institutions identified for the support included; Office of the Auditor General (OAG), Office of the Controller of Budget (OCOB), Kenya Revenue Authority (KRA) and National Treasury departments that includes Accountant General, Public Procurement, IFMIS, Internal Audit, Intergovernmental Fiscal Relations and the PFMR Secretariat.

The National Treasury recently entered into a bilateral agreement with the Danish Ministry of Foreign Affairs regarding support to the Public Finance Management Reforms Strategy in Kenya (covered under the Kenya Country Programme 2016-2020). The total grant amount is **DKK 45 Million** covering four years for the programme. Consequently, the Royal Danish Embassy made a disbursement of Kshs **195,000,000.00** targeting ten (10) implementing agencies for the FY 2017/2018 to be coordinated through the PFMR programme.

In the financial year 2016/2017 a total of Kshs **124,308,334** remained unutilized and thus carried forward to 2017/2018. Following consultations between the RDE, the implementing agencies and the PFMR Secretariat work plans were developed. The RDE formally approved the work plans totaling to Kshs **298, 795, 834.** An additional Kshs **10 million** was added to the Office of the Auditor General in early December 2017. The approved allocations are (Kshs):-

Agency	Allocation 16/17	Balance 16/17	FY 17/18 disbursement (additional funds)	Total budget FY 17/18 (Balance 16/17 + additional 17/18)
MoDP	9,000,000	9,000,000	6,000,000	15,000,000
MAFD	8,000,000	8,000,000	3,500,000	11,500,000
AGD	47,500,000	155,334	40,000,000	40,155,334
IFMIS	15,000,000	15,000,000	16,000,000	31,000,000
OCOB	15,000,000	6,153,000	15,000,000	21,153,000
IGFRD	0	0	10,000,000	10,000,000
OAG	25,000,000	25,000,000	50,000,000	75,000,000
KRA	30,000,000	30,000,000	25,000,000	55,000,000
PFMRS	16,000,000	16,000,000	3,987,500	19,987,500
IAD	15,000,000	15,000,000	15,000,000	30,000,000
Unallocated			10,512,500	10,512,500
Sum	**180,500,000**	**124,308,334**	**195,000,000**	**319,308,334**

3.0 PROGRAMME IMPLEMENTATION PROGRESS

The Royal Danish Embassy (RDE) disbursed funds to finance the work plan in December 2017. The Secretariat informed the agencies about the disbursement and requested for immediate commencement of implementation of activities. A summary of the activities and the implementation status are outlined as follows.

3.1 OFFICE OF THE CONTROLLER OF BUDGET

3.1.1 Introduction

The Office of the Controller of Budget (OCOB) is an independent Office established under Article 228 of the Constitution of Kenya 2012. Its role is to oversee the implementation of budgets of the National and County governments and report to each House of Parliament and to ensure the public has access to this information as stipulated under Section 39(8) of the Public Finance Management Act, 2012 and Article 35 of the Constitution of Kenya 2010.

Under this mandate, the Office should ensure that the public has access to information and participates in a democratic manner in the development and execution of budgets. The public therefore needs to know that it provides the consent to incur expenses and should therefore participate in budget formulation by identifying priorities, the location and timing of projects and to ensure equitable distribution of resources.

3.1.2 Interventions Supported

The 2017/18 work plan for the Office of the Controller of Budget focused on the following intervention(s)

i. Strengthen in-year monitoring and reporting
ii. Strengthening statutory reporting

3.1.3 Planned Activities/Actual Achievements

In the Financial year 2017/2018, the OCOB implemented the following activities:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks/ Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					
Strengthen in-year monitoring and reporting	OCOB reports includes adherence and compliance to gender responsi	Number of OCOB reports reflecting compl	No frame work for monitoring in place	Provide technical assistance to OCOB on adherence and	Engage a consultant to finalize GRB guidelines	Draft GRB guidelines done. Awaiting finalization	0	Done internally by the OCoB Research Unit

	ve budgeting guidelines	iance to gender responsive budgeting		compliance to GRB guidelines in reporting				
Strengthening statutory reporting	OCOB is able to meet to its statutory obligations for reporting on budget implementation effectively	"Budget implementation reports produced in time Proportion of OCOB officers trained on budget implementation reporting"		Build the capacity of OCOB for reporting on budget implementation	Source for a consultant to train Accountants, County Budget Officers and County Budget Co-coordinators. Accommodation while training the Officers (10pax per County for 47 counties plus 6 Officers from OCOB)	A consultant was sourced and the training done in Mombasa and Naivasha	18,591,970	The training in Mombasa and Naivasha had 95 and 47 participants respectively

3.1.4 Budget Performance

The Office of the Controller of Budget had a balance of Kshs 6,153,000 from 2016/2017 allocation. This balance was brought forward to 2017/18. The Department was allocated Kshs 15,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 21,153,000. As at 30th June, 2018 the department had spent Kshs 10,005,250 representing an absorption rate of 47.30 percent. As at October 2018, the department had spent Kshs 19,704,390 representing an absorption rate of 93.15 percent. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017.

3.2 OFFICE OF THE AUDITOR GENERAL

3.2.1 Introduction

The Office of the Auditor-General (OAG) is an independent Office established under Article 229 of the Constitution of Kenya. The Office is charged with the primary oversight role of ensuring accountability within the three arms of government (the Legislature, the Judiciary and the Executive) as well as the Constitutional Commissions and the other independent Office (Controller of Budget).

The office is not able to meet the timelines as required by the Constitution due to the various challenges; Delay and inadequate funding for audit operations, inadequate staffing and training, poor follow-up of audit recommendations and inadequate IT skills and capacity building. With the expanded mandate, there is dire need to build staff capacity and develop relevant skills and capabilities, re-engineering of systems and re-tooling that will enable the OAG cope with the tremendously increasing demands. The interventions have been detailed in the revised PFMR Strategy.

3.2.2 Interventions Supported

The Office of the Auditor General work plan for 2017/18 was based on the following intervention(s)

i. Strengthening capacity of Independent Audit
ii. Strengthen audit follow up

3.2.3 Planned Activities/Actual Achievements

In the Financial year 2017/2018, the OAG implemented the following activities:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks/Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					
Strengthening capacity of Independent Audit	OAG is able to timely produce annual audit reports	Number of MDAs and counties whose annual audits are unde		Implement a strategy to cope with the expanded audit load and ensure timely delivery of	Training auditors on Teammate version 12 50 licences for Teammate version	298 Auditors Trained - -	10,026,840 - -	The Training to continue in 2018/2019 The Licenses are being procured.

		rtaken		annual audits – including strengthening staff capacity	12 IFMIS Audit Training IPSAS Training Audit Report writing Financial & Compliance Audit Manual (FAM& CAM) Performance audit training Forensic audit training ICT capacity enhancement	693 - -	- 17,666,000 - -	Procurement to be finalized by beginning of the New FY. IPSAS Training was not provided for in the approved Work Plan. The Training to be Finalized First Quarter of the New FY FAM & CAM, PA & Forensic Audit Training did not have allocation To be done in the new FY

Strengthen audit follow up	MDAs and counties have access to and implement quality and actionable reports of PIC and PAC	MDAs and counties have access to and implement quality and actionable reports of PIC and PAC		Build capacity for PIC and PAC members both at county and national levels.	Set up a process/tool to monitor the implementation of recommendations and link to working papers of RAM manual Train incoming audit committees			Not Provided for in the activities in the Work Plan

3.2.4 Budget Performance

The Office of the Auditor General had a balance of Kshs 25,000,000 from 2016/2017 allocation which was carried forward to 2017/18. The Department was allocated Kshs 50,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 75,000,000. As at 30th June, 2018 the department had spent Kshs 34,815,347 representing an absorption rate of 46.42 percent. As at October 2018, the department had spent Kshs 65,151,952 representing an absorption rate of 86.87 percent. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017.

3.3 KENYA REVENUE AUTHORITY

3.3.1 Introduction

Kenya Revenue Authority (KRA) is a corporate body which was formed in 1995 by an Act of Parliament (KRA Act 1995, Cap 469) to collect revenue on behalf of the Government. It was entrusted with the responsibility of administration, collection, accounting for taxes and enforcement of laws relating to tax revenue administration. The laws administered by KRA therefore legally constitute its functional departments, namely Domestic Taxes Department and Customs & Border Control Departments.

Revenue mobilization is the first theme of the PFMR Strategy (2013-18) representing a set of reforms aiming to "enhance collection, accounting and timely reporting of public revenues at national and county levels of government". The Government has registered good progress under this theme for example Key legal and institutional reforms have been implemented aiming to reduce complexity of tax administration and to improve efficiency of operations. On tax collection, overall, progress has been recorded towards targets set within the Strategy.

Following the review of the 2013 – 2018 Public Finance Management Reforms (PFMR) Strategy recently conducted, the following key interventions were proposed as a way forward; broaden the tax base, implement seamless interfaces with key third party systems and revamp and strengthen tax payer education programmes. Implement a compliance risk management strategy to raise tax payer compliance with legislation. Revamp and strengthen the debt collection programme. Improve customer satisfaction with KRA services through better access and use of automated services and simplified and better responsive complaints management systems. Implement a tax payer education strategy aimed at enhancing compliance and Implement a fully automated single collector services for taxpayers.

3.3.2 Interventions Supported

The Kenya Revenue Authority work plan for 2017/18 was based on the following intervention(s)

i. Enhancing Tax Revenue collection

3.3.3 Planned Activities/Actual Achievements

The following activities were planned for the period:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks /Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					

Enhancing Tax Revenue collection	KRA is able to improve its tax compliance and enhance revenue collection significantly	Tax revenue to GDP ratio No. of active taxpayers	17.7% 3.8 Million[1] (as at March 2018	Implement a programme to broaden tax base	Hold workshops to sensitize the public on VAT Nil/ Non filer strategy, informal sector and professionals Undertake training of officers in Business Intelligence, Data Analytics Undertake sensitization workshops with staff to realign operations with TADAT recommendations Undertake stakeholder sensitization on on the overhauled Income Tax Act	Sensitization to WVAT Agents in Real Estate done in 5 regions(North Rift, South Rift, Nairobi ,Eastern and Western) Trained 12 officers for Business Intelligence and Data Analytics Nine (9) sensitizations country wide done Activity not done due to longevity of the exercise	1,755,440 2,035,290 1,513,365	1M allocated to County Govt activities Request for reallocation of funds to a similar activity (Budget sensitization declined)

[1] KRA

	KRA greatly improves efficiency of its operations	Cost of collection of key revenue programmes		Complete the implementation of KRA Automation programme including integrating tax systems with IFMIS and other relevant PFM systems	Undertake Phase II of iTax/IFMIS/CBK integration Review phase I Develop requirements for phase II Implementation County Government engagement to improve tax compliance through awareness programmes	Activity could not be started without completeness of Phase I 9 Counties engaged(Nairobi,Nakuru, Kiambu,Embu, Eldoret, Mombasa, Nyeri, Machakos, Kisumu	3,409,499	Money for this activity reallocated to Phase I 2.5M + 1M allocated
		% of Prioritized Training Areas implemented		Enhance capacity building in tax administration for prioritized areas	Leadership & Management Development Coaching for Performance Business Analysis Project Management	55 Officers trained 34 Officers trained 8 Officers trained 8 Officers trained	3,568,384 1,800,000 1,290,384 1,518,829	

3.3.4 Budget Performance

The Kenya Revenue Authority had a balance of Kshs 30,000,000 from 2016/2017 allocation .This balance was brought forward to 2017/18. The Department was allocated Kshs 25,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 55,000,000. As at 30th June, 2018 the department had spent Kshs 27,100,246.20 representing an absorption rate of 49.27 percent. As at October 2018, the department had spent Kshs 27,520,246 representing an absorption rate of 50.04 percent. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017.

3.4 THE ACCOUNTANT GENERAL'S DEPARTMENT

3.4.1 Introduction

The Accountant General's Department (AGD) is a department within the National Treasury and is responsible for planning, developing and implementing Government accounting policy, systems and procedures including computerization programmes of accounting systems and monitoring revenue collection and expenditures that are approved by Parliament. The main functions are:

- Planning, development, implementation and formulation of policy pertaining to accounting systems, procedures, rules and regulations.
- Direction, control and coordination of matters relating to ministries'/departments' accounting systems and operations in liaison with Heads of Accounting Units.
- Monitoring and evaluation of accounting systems and utilization of staff in ministries/departments and districts.
- Direction, control and coordination of all matters pertaining to Paymaster General (Banking) and District Accounting (systems) operations including reimbursement to districts (Cash Management).
- Direction, control and coordination of operations of the exchequer in matters relating to accounting for revenue including external loans and grants liaising with the Central Bank of Kenya on matters relating to consolidated fund and ministries' bank accounts.
- Management and control of Government financial reporting system to ensure delivery of timely and accurate financial information for management decisions
- Follow-up on Ministries'/Departments' Annual Accounts, audit reports, the Public Accounts Committee recommendations and preparation of the Treasury Memorandum.
- Preparation of letters of appointment of accounting officers and receivers of revenue; Administration of the scheme of service for accountants including recruitment in conjunction with Directorate of Personnel Management and Public Service Commission of Kenya.
- Deployment of Accountants in Ministries/Departments and Districts
- Training and development of the accountants in the civil service.
- Administration of the Accountants Act and Certified Public Secretaries Act, including the management of Registration of Accountants Board (RAB) and Registration of Certified Public Secretaries Board (RCPSB).

The mission of the department is to continuously provide quality accounting Services in the Public sector through proper maintenance of accounting records, timely provision of financial reports and ensuring proper accountability of public funds.

3.4.2 Interventions Supported

The Accountant General's Department work plan for 2017/18 was based on the following intervention(s)

i. Strengthen in-year monitoring and reporting
ii. Strengthen Statutory reporting

3.4.3 Planned Activities/Actual Achievements

The Accountant General Department implemented the following activities in the period under review:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks/ Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					
Strengthen in-year monitoring and reporting	NT, produces quarterly and half-annual consolidated financial statements/budget implementation reports (covering financial and non-financial data) analyzed and consolidated from submissions of MDAs	Quarterly consolidated financial statements that include financial and non-financial Number of MDAs submitting quarterly financial statements Number of CG submitting quarterly financial statements	All MDAs are submitting quarterly financial statements All CG are submitting quarterly financial statements	Build capacity on MDAs and county governments to comply with the prescribed in year reporting templates prescribed by the PSASB w.e.f July 2016	Technical Assistance for MDAs Technical Assistance for SAGAs Technical Assistance for County Governments	Two training workshops carried out for MDAs, SC&S AGAs and County Governments each There has been increased submission of quarterly reports by both MDAs and SC&S AGAs and County Governments Engaged Ernst & Young for TA	MDAs: Of the contracted Kshs 49,045,374, a total of Kshs 10m paid from Danida funds and remaining Kshs 39,045,374 from GoK SC&SAGAs: Of the contracted Kshs 48,306,127 a total of Kshs 10m paid from Danida funds and remaining Kshs 38,306,127 from GoK County Govts: Of the contracted Kshs 44,353,238 a total of Kshs 10m from Danida and	Intervention progressing well

						for MDAs Engaged Deloitte for TA SC&S AGAs Engaged PwC for TA for County Governments	remaining Kshs 34,353,238 from GoK	
Strengthen Statutory reporting	NT, MDAs / counties are able to prepare timely and accurate consolidated financial reporting using staff in-house resources.	Number of entities with un-reconciled balances on the IFMIS Proportion of counties preparing annual financial statements in time without external assistance Consolidated financial statements in line with International Standards prepared and	Consolidated financial statements in line with International Standards prepared and timely	Build sustainable accounting capacity/ tools at the Treasury office of the DG-Financial services – for the preparation and consolidation of financial statements Build capacity of the MDAs and county govern	Update reporting tools and templates Conduct formal workshop for County Govts, and MDAs on clean of un-reconciled balances and on statutory reporting Conduct formal workshop for	Tool for consolidation has been updated and applied during FY 2017/2018 quarterly consolidations. First round of training carried out during the month of December and January 2017/2018 covering reconciliation	First round of training Kshs 20 million funded by GoK Second round of training Kshs 20m funded by GoK	Intervention progressing well

		submitted within statutory deadlines		ments to fully reconcile and clean up all un-reconcilable balances on the IFMIS and on statutory reporting. Build capacity of the MDAs and county governments to fully reconcile and clean up all un-reconcilable balances on the IFMIS and on statutory reporting. Develop and implement a roadmap for the adoption of accrual	County Govts, and MDAs on prescribed formats and in-year reporting Develop and implement a roadmap for the adoption of accrual IPSAS standards by counties and agencies Fulfill, the reporting framework and standards requirement of the EAC for national and county governments	of un-reconciled balances. Financed by GOK Second round of training for 2017/2018 scheduled and the second round of training carried out in May and June 2018 covering in-year and annual reporting. Financed by GoK		

				IPSAS standards by counties and agencies. Implement a plan to integrate the EAC fiscal convergence requirements that remain un-fulfilled, within the reporting framework and standards for national and county governments				

3.4.4 Budget Performance

The Accountant General's Department had a balance of Kshs 155,334 from 2016/2017 allocation which was carried forward to 2017/18. The Department was allocated Kshs 40,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 40,155,334. As at 30th June, 2018 the department had spent Kshs 21,255,711.34 representing an absorption rate of 52.93 percent. There was no change in spending as at October 2018.The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017. The late approval of the work plan reduced implementation time of planned activities.

3.5 INTERNAL AUDITOR GENERAL DEPARTMENT

3.5.1 Introduction

Internal Audit is an independent review function in the Public Service as stipulated in Section 73 of the Public Finance Management Act, 2012.

The Office of the Internal Auditor-General is an office in the National Treasury which was established by Section 9 of the Government Financial Management Act, 2004, and continued by section 210(15) of the Public Finance Management Act, 2012.

The key mandate of the Department includes:

a) Reviewing the governance mechanisms of the entity and mechanisms for transparency and accountability;

b) Conducting risk-based, value for money and systems audits aimed at strengthening internal control mechanisms that could have an impact on achievement of the strategic objectives of the entity;

c) Verifying the existence of assets administered by the entity and ensuring that there are proper safeguards for their protection;

d) Providing assurance that appropriate institutional policies and procedures and good business practices are followed by the entity; and

e) Evaluating the adequacy and reliability of information available to management for making decisions with regard to the entity and its operations

In undertaking its functions, the department is guided by the Constitution, the legal frameworks, guidelines, and the International Professional Practices Framework for Internal Auditing, as promulgated from time to time by the Institute of Internal Auditing.

Significant progress has been realized in strengthening the internal audit function within government institutions at the national level. Major reforms under the PFMR Strategy have focused on modernising practises and operations for internal audit. These include shifting from regularity and compliance audits to more value adding audit techniques, strengthening risk management component in practice, and building capacity of internal auditors and audit committee members - where they exist. Guidelines for Value for money audits and risk management have been drafted and will soon be rolled out. IT tools, such as TEAMMATE and IDEA, have been introduced as part of efforts to modernize audit practices.

However, more work still needs to be done in many areas including internal including development of risk assessment frameworks for internal audit, providing guidelines for information system audit, enhancing the reporting structure for the internal audit at national government, establishment of internal audit structures at the counties and establishment of audit committees both within counties and national government entities.

3.5.2 Interventions Supported

The Internal Auditor General work plan for 2017/18 was based on the following intervention(s)

i. Improve effectiveness of Internal Audit function

3.5.3 Planned Activities/Actual Achievements

The following activities were implemented during the period under review:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks/ Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					
Improve effectiveness of Internal Audit function	Internal Audit Manuals printed	5,000 copies of manuals printed and put in use		Review of Risk Based Audit Manuals and, Handbook on Frameworks for Audit Committee	Printing of Risk Based Audit Manuals (RBA, Handbook on Frameworks for Audit Committee)	Risk based Audit Manuals done		
	Internal Auditors Sensitized on the Internal Audit Manual	450 National and 282 County Internal Auditors sensitized on the new internal audit manual		Sensitization workshops at School of Government	Sensitization workshops at:- 1. School of Government 2. Regional centres			
	National Entities audit committee members trained	22 Ministerial Audit committees trained		Training of Audit Committee Members at School of Government	Accommodation and Training Workshops on Roles of Audit Committees			
	County audit committee	20 Counties Audit		Training of Audit Committee	Accommodation and Training			

	members trained	committee trained		Members at School of Government	Workshops on Roles of Audit Committees			
	Number of Internal Auditors Certified in their respective fields	200 Number of Internal Auditors Certified in their respective fields		The full numbers trained	Examination and Training fees for Certified Information Systems Audit (CISA) for audit of computer systems IT Governance in Public Sector, ISACA Annual Conference, IT Audit Technicians by ISACA Auditor, CGAP Certification Training and Examination fees Value For Money Audit Training (25 Internal Auditors)			

					Accommodation and Facilitation Training costs for Internal Audit Regional Sensitisation Workshops on guidelines (8 Region) Workshops to develop and populate TeamMate with internal audit templates			
	Licenses	Activated Licenses		Procurement of IDEA Data Analysis Software	IDEA Licenses cost for the existing licenses			
	Internal Auditors trained on Team Mate	450 internal auditors trained in Team Mate		Training on Team Mate by Champions	Training at National and Regional Centers			
	Internal Auditors attend Team Mate Global Conference	5 internal auditors attend Team Mate Global Conference		Team Mate World Conference attended by TeamMate Champions	Benchmarking at Team Mate Global Conference	Conference held and attended by		

						champions		
	Internal Auditors attend AFIIA and IIA Annual Conference	25 internal auditors to attend AFIIA and IIA Annual Conference		IIA Annual Conferences	Benchmarking at AFIIA and IIA Conferences			
				Diagnostic study on Internal Audit function				

3.5.4 Budget Performance

The Internal Auditor General Department had a balance of Kshs 15,000,000 from 2016/2017 allocation. This balance was brought forward to 2017/18. The Department was allocated Kshs 15,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 30,000,000. As at 30th June, 2018 the department had spent Kshs 7,723,662 representing an absorption rate of 25.75 percent. There was no change in spending as at October 2018. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017. The late approval of the work plan reduced implementation time of planned activities.

3.6 INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM

3.6.1 Introduction

The department was established at the National Treasury to ensure full adoption of Integrated Financial Management Information System (IFMIS) and has the responsibility of automating and integrating PFM systems within Government so as to facilitate efficient and effective execution of all financial management processes eliminate risks and enhance security. IFMIS is an automated system that enhances efficiency in planning, budgeting, procurement, expenditure management and reporting in both National and County Governments.

IFMIS re-engineering is a cross cutting theme in the PFM Reforms Strategy. The primary objective of the reforms under the strategy is to establish a secure, reliable, efficient, effective and fully integrated PFM systems across all government.

Significant progress has been realized in the implementation of reforms under this theme. The IFMIS has been rolled out and is operational in all the 18 Ministries and the 47 counties. The system is also operational in all commissions and independent offices. In particular, the rollout of the key modules - Plan to Budget, Procure to Pay, Revenue to Cash, and Record to Report, has been completed through all these entities. The National Treasury has established a unit with a pool of experts (IFMIS Implementation Team) to provide support to MDAs/ Counties in the use of the IFMIS as part of Government's sustainability strategy.

While acknowledging the significant strides made in the IFMIS implementation, there are several issues that need to be addressed for the IFMIS to become a fully functional end-to-end system. These areas include

a) Integrating the IFMIS with other key PFM related systems, improving the stability and availability of the network infrastructure and the establishing a Disaster Recovery Site (DRS) to assure the system again failure due to disasters. These areas are necessary to improve the security and reliability of the IFMIS.

b) Unreliable local area networks and infrastructure; and also Unreliable Wide Area Network between the Counties and the IFMIS datacenter

c) Counties are not fully utilizing the IFMIS for preparing their budgets.

d) The IFMIS is not being utilized for carrying out bank reconciliations at the counties.

e) Counties have continued to maintain parallel sets of books of accounts

f) Counties are unable to prepare their financial statements off the IFMIS and continue to use manual methods.

g) The cash management functionality within IFMIS is not optimally utilized.

Being a complex project, IFMIS requires a lot of planning, consultation, sensitization, commitment and support from all stakeholders.

3.6.2 Interventions Supported

The Integrated Financial Management Information System work plan for 2017/18 was based on the following intervention(s).

i. Strengthening cash management to improve execution of the budget

3.6.3 Planned Activities/Actual Achievements

The IFMIS Department implemented the following activities in the period under review:-

PFMR Strategic Interventions				**Main Activities**	**Planned Sub Activities**	**Actual Achievement**	**Actual Expenditure**
(Derived from the PFM reforms strategy 2013-2018)	**Expected Results**	**Indicators**	**Status of Indicator**				
Strengthening cash management to improve execution of the budget	Automated Cash Plans and Exchequer release process in IFMIS	Cash Flow Plans captured, consolidated and updated in IFMIS		Capacity building of MDAs and County Governments on Cash Flow Planning, Exchequer Release Process	Support for 1 year contract to Developer for post go live support	Post go-live support provided for the consultant for the first one year after Cash Management module go live Pending payments for Copy Cat contract: October-December 2017 Ksh 2,067,120 Invoice for April-June 2018 will be submitted by 20th	Ksh. 2,067,120 paid in July 2018. This is payment for Jan-March 2018

					Preparation and publishing end user manuals for the cash flow planning and exchequer process Comprehensive training of IFMIS Super Users and end users in	September 2018 July-September invoice to be submitted after contract closure IFMIS User Manuals under review and ready for publishing in November 2018 after updates on cash management and sourcing processes IFMIS end users in National Government trained on IFMIS modules CM training for County Governme	Invoice of Ksh 1,000,000 from KSG to be forwarded to PFMR for training IFMIS super users at KSG

					MDAS on cash flow planning, exchequer process and auto-reconciliation Oracle Certification for IFMIS Cash Management Refresher training of IFMIS end users in MDAs on cash flow planning, exchequer process and auto-reconciliation Training of IFMIS end users in Counti	nts planned for November 2018 after User Acceptance Testing	

					es on cash flow planning, exchequer process and auto-reconciliation		

3.6.4 Budget Performance

The IFMIS Department had a balance of Kshs 15,000,000 from 2016/2017 allocation which was carried forward to 2017/18. The Department was allocated Kshs 16,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 31,000,000. As at 30th June, 2018 the department had spent Kshs 11,472,516 representing an absorption rate of 37.01 percent. There was no change in spending as at October 2018. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017.

3.7 MINISTRY OF DEVOLUTION AND PLANNING- STATE DEPARTMENT OF PLANNING AND STATISTICS

3.7.1 Introduction

Kenya Vision 2030 is the country's long term development blue print that aims to transform Kenya into a newly-industrializing, middle income country providing high quality of life to its citizens. The Vision is being implemented through five-year successive medium term plans. The First Medium Term Plan covered the Period 2008-2012 while the second MTP covers the period 2013 to 2017. The Ministry has initiated the preparation of Third MTP 2018-2022 to succeed the second MTP whose implementation will end in 2017.

The Third Medium Term Plan will outline policies, programmes and projects for implementation over the period 2018-2022. Several articles of the Constitution of Kenya (2010) call for the involvement of the public in the formulation of policies and plans. In order to ensure that policies, programmes and projects are well formulated, there is need to sensitize county officials involved in development of County Integrated Development Plans (CIDPs) on key development issues. These will include:

- Kenya Vision 2030,
- status of implementation of Second MTP,
- Sustainable development Goals (SDGs),
- Africa's Agenda 2063,
- Public Finance Management and Budgeting,
- Third MTP 2018-2022 Preparatory Process,
- Monitoring and evaluation,
- Management of Statistics,
- CIDP preparation and implementation guidelines,
- Strategic Planning,
- stakeholder participation in national and county planning; and
- County consultation forums for Third MTP 2018-2022.

3.7.2 Interventions Supported

The State Department for Planning and Statistics work plan for 2017/18 was based on the following intervention(s)

i. Strengthen Strategic Planning

3.7.3 Planned Activities/Actual Achievements

The department implemented the following activities in the period under review:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks/ Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					
Strengthen	Third Medium	Third MTP	Third MTP 2018-	Hold retreats and	Hold two (2) retreats	Held two retreats	6,600,000	Cost of first retreat (Kshs. 3.26

Strategic Planning	Term Plan 2018-2022 of Kenya Vision 2030 prepare through wide stakeholder participation and form basis for prparation of CIDPs	2018 - 2022 ; 27 MTP Sector Plans	2022 and 27 MTP Sector Plans prepared	validation forums for finalization of Third MTP 2018-2022	to edit and finalize draft Third MTP and 27 MTP Sector Plans Hold a National stakeholders validation forum for Third MTP	to finalize Third MTP and Sector Plans Held one retreat to edit MTP and Sector Plans		million) was paid Cost of 2 retreats **have not been paid** (est. cost of Kshs. 3.2 million) Validation workshop was not held but instead a retreat to edit the MTP was held

3.7.4 Budget Performance

The State Department for Planning had a balance of Kshs 9,000,000 from 2016/2017 allocation. This balance was brought forward to 2017/18. The Department was allocated Kshs 6,000,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 15,000,000. As at 30th June, 2018 the department had spent Kshs 3,220,360 representing an absorption rate of 21.47 percent. There was no change in spending as at October 2018. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017. The late approval of the work plan reduced implementation time of planned activities.

3.8 MACRO AND FISCAL AFFAIRS

3.8.1 Introduction

The overall objective in this area is to strengthen macro-economic forecasting in line with macro-economic fiscal policies. The Government will therefore continue with its efforts to improve macro-economic forecasting. This is a high priority project that will provide a realistic and reliable basis for development of macro-economic forecasts that can be depended upon for evaluation of various policy scenarios, improve economic analysis and provide a solid basis for the construction of the fiscal framework.

The PFMR Strategy (2013-2018) identified a number of interventions to meet this objective. These included:

- To build capacity in macro-economic forecasting, analysis and management,
- Acquire a modern macro-economic model and
- Develop a database to support macro-economic analysis.

3.8.2 Interventions Supported

The Macro and Fiscal Affairs Department work plan for 2017/18 was based on the following intervention(s)

i. Strengthen macro-economic forecasts

3.8.3 Planned Activities/Actual Achievements

The following activities were planned for the period:-

PFMR Strategic Interventions				**Main Activities**	**Planned Sub Activities**	**Actual Achievement**	**Actual Expenditure**	**Remarks /Comments**
(Derived from the PFM reforms strategy 2013-2018)	**Expected Results**	**Indicators**	**Status of Indicator**					
Strengthen macro-economic forecasts	Capacity of NT for macroeconomic forecasting, analysis and manageme	Number of staff trained	27	Capacity building in macro-economic forecasting, analysis and management	Four officers trained short course international	Nil	Nil	Was not implemented due to congested departmental work calendar
					Two week's training on the model (local)	27 Officers trained in a one week workshop on macroeconomic and revenue forecasting	591,200	The IMF Afritac East offered technical expertise

	nt is strengthened			Modern macro economic model	E-view Software Printers Procurement of the consultancy for development of the system	from 24th - 30th June, 2018 Procurement process initiated for printers and e-view software	Nil	The procurement process was initiated. However the lowest quotation for the E-view Software was Kshs. 1.2 Million against a budget of Kshs. 0.5 Million, hence procurement could not proceed For the printers, the procurement process was not completed by the end of the financial year Procurement of the consultancy for development of system was scheduled for FY 2018/19

				Develop a database to support macro economic analysis	Supply, installation and commissioning of database hardware and software One week training on the system and capturing/ uploading of the data into the system	N/A	N/A	The activity was scheduled for FY 2018/19

3.8.4 Budget Performance

The Macro and Fiscal Affairs Department had a balance of Kshs 8,000,000 from 2016/2017 allocation which was carried forward to 2017/18. The Department was allocated Kshs 3,500,000 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 11,500,000. As at 30th June, 2018 the department had spent Kshs 216,999 representing an absorption rate of 1.89 percent. There was no change in spending as at October 2018. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017.

3.9 INTERGOVERNMENTAL FISCAL RELATIONS

3.9.1 Introduction

Intergovernmental Fiscal Relations is the department under National Treasury which deals with all Public Finance Management matters that cuts across the two levels of government, the County and the National Government. Its mandate is to advance intergovernmental fiscal relations by creating and pursuing nationally beneficial intergovernmental fiscal opportunities and providing strategic advice on relevant priorities, as well as fostering strategic relationships with key stakeholders for the benefit of the people of Kenya.

3.9.2 Interventions supported

The Intergovernmental Fiscal Relations department work plan for 2017/18 focused on the following intervention(s)

i. Strengthen mobilization, accounting and reporting on Own Source Revenue
ii. Strengthening County budgeting systems
iii. Clarifying and Strengthening Intergovernmental Fiscal relations

3.9.3 Planned Activities/Actual Achievements

The following activities were implemented in the period under review:-

PFMR Strategic Interventions				**Main Activities**	**Planned Sub Activities**	**Actual Achievement**	**Actual Expenditure**	**Remarks/ Comments**
Derived from the PFM reforms strategy 2013-2018)	**Expected Results**	**Indicators**	**Status of Indicator**					
Strengthen mobilization, accounting and reporting on Own Source Revenue	Counties have adequate legislation to guide OSR administration	OSR Policy and legal framework	OSR Policy and legal frame work in place	Continue to implement the programme to support counties to establish appropriate legislations for OSR	Validation workshop	Two validation workshops were held, one at Enashipai hotel in Naivasha with the Governors and council of Governors, and the other	1,575,000 361,864.03	The policy has already been approved by cabinet and the bill has been forwarded to Parliament for approval

						one at KICC for the other stakeholders		
					TA from World Bank on Own Source Revenue Potential for the Counties	OSR potential estimated. Report already out	0	The exercise was paid for by World Bank and the actual cost was not revealed
Strengthening County budgeting systems	Greater accuracy in revenue forecasts (OSR) and budget formulation to provide a reliable basis for budget allocation	Variance between county OSR forecasts and actual collections on annual basis	48%	Implement a plan to assist counties to build capacity for revenue analysis and forecasts	Assessment of county fiscal capacity and gaps in revenue forecasting Developing model for forecasting for Counties Train 35 Trainers of Trainers	County Budget analysis conducted and draft report prepared Forecasting model was not developed	0 0 0	The exercise was conducted through desktop analysis by IGFRD staff. One validation was held and paid for fully by the National Treasury The partners we were working with to train on revenue forecasting were not available during the period for implementa

								tion of this work plan
Clarifying and Strengthening Intergovernmental Fiscal relations	Counties access and are able to use key PFM legislation in their operations	Number of county PFM officers (National and County) trained/sensitized on PFM Legislati		Train IGFRD Staff on Financial Management, Taxation policy, Revenue analysis, Fiscal decentralization and other	Actual training of the 47 Counties-To be done in 7 regions, 40 people per region for 3 Days (equivalent of 1880 people) Train 6 IGFRD officers with Danida Fellowship Centre	TOTs were not trained on Revenue Forecasting CECM Finance and CO-Finance from all the 47 County Governments trained	2,350,000 1,269,000	The training was conducted centrally in Naivasha, Simba lodge in 2 faces. 1 week for CECM Finance and 1 Week for CO Finance. The Department used the existing resource persons at the National Treasury. However, engagements are still ongoing on how to engage external facilitators with the necessary expertise to train the TOTS The amount of 1,269,000 is for purchase of

		ons and Regulations		relevant areas		6 IGFR-D Officers were trained at the DFC and certificates forwarded to PFMR	2,724,000	10 laptops to be used for the training. They have already been delivered in the department and the documentation is being forwarded to PFMR for payment Kshs 1,344,000 was paid by Danida, and Kshs 1,380,000 by GoK

3.9.4 Budget Performance

The Intergovernmental Fiscal Relations was allocated Kshs. 10,000,000 in 2017/18. As at 30th June, 2018 the department had spent Kshs 4,195,364 representing an absorption rate of 41.95 percent. As at October 2018, the department had spent Kshs 5,464,364.00 representing an absorption rate of 54.46 percent. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017. The late approval of the work plan reduced implementation time of planned activities.

3.10 PROGRAMME MANAGEMENT-PFM REFORMS SECRETARIAT

3.10.1 Introduction

Programme management is a critical component of the PFMR Strategy focusing on coordination of reform activities with implementing agencies to ensure successful delivery of the Strategy. Under the PFMR Strategy, project management was intended to focus on programme planning, budgeting and reporting, coordination, monitoring and evaluation and communication on PFM reforms. These elements are broadly in line with good practices. An additional relevant element is coordination of donor financing to the reform programme.

Several challenges primarily related to the capacity and reporting mechanisms, have limited the effectiveness of programme management. The most critical key challenges are;

- Governance arrangements and management
- PFMR Strategy Results Framework
- Resource Mobilization and budget performance
- Communication
- Capacity of the PFMR Secretariat

3.10.2 Interventions Supported

The PFMR Secretariat work plan for 2017/18 was based on the following intervention(s)

i. Strengthen coordination mechanisms
ii. Strengthening DPs Engagement
iii. Strengthening Capacity of the Secretariat
iv. Strengthening M & E and Reporting

3.10.3 Planned Activities/Actual Achievements

The Secretariat implemented the following activities in the period under review:-

PFMR Strategic Interventions				Main Activities	Planned Sub Activities	Actual Achievement	Actual Expenditure	Remarks /Comments
(Derived from the PFM reforms strategy 2013-2018)	Expected Results	Indicators	Status of Indicator					
Strengthen coordination mechanisms	Implementing agencies are well guided	Compliance by implementing agen	No manual in place [2]	Develop a programme operations	1.2.1 Engage consultancy services for a period	Consultancy ongoing	268,540	Inception report and a draft fieldwork report submitted

[2] Development of the operations manual ongoing

	on the operations of the Reform Programme Information on the implementation of the PFM reforms and the Strategy is readily accessible to stakeholders	cies to the Operations Manual Proportion of implementing agencies complying with PFMR communication strategy	No framework for assessment in place [3]	manual Develop and implement communication strategy for a revised PFM Strategy	of 3 months (60 days) Workshop to validate the operations manual and stakeholders ownership (payment of venue and conference facility for secretariat staff) Engage consultancy services for a period of 2 months (40 days) Workshop to validate the communication strategy and stakeho	Validation workshop will be undertaken once the Operation Manual is ready Consultancy ongoing Validation workshop will be undertaken once the Communication Strategy Manual is ready	0	Planned for 2017/2018 Inception report and a draft field work report submitted Planned for 2017/2018

[3] Development of the communications strategy ongoing

					lders ownership) (payment of venue and conference facility for secretariat staff)			
Strengthening DPs Engagement	Implementing Agencies and DPs respond better to PFMR Strategy in terms of funding and reporting	Number of DPs funding and reporting on PFM reform strategy outside PFMR secretariat Number of implementing agencies funding and reporting	0 0[4]	Develop and Implement a reporting framework on DPs financing of PFM Reforms Develop and Implement a reporting framework by implementing agencies on funding of the strategy outside	Retreat to finalize a reporting framework Conduct 1 day validation workshop	Reporting framework developed Awaiting formulation of a comprehensive M&E framework	0 0	Roll out of reporting framework awaiting formulation of a comprehensive M&E framework Planned for 2017/2018

[4] No framework for reporting

		on PFM reform strategy outside PFMR secretariat		the PFMR Secretariat				
Strengthening Capacity of the Secretariat	Implement a training plan to improve the effectiveness of the role of the Secretariat in coordinating with the implementing Agencies	Proportion of staff trained under approved Secretariat Training Plan		Implement a training plan for PFMR Secretariat	Training on PRINCE2 Foundation + practitioner for M & E officers. DANIDA Fellowship Centre (Denmark) trainings on areas relevant Public finance management reforms Developing Intergraded Records Management Policy course. This course	Trainers procured Not done Activity not funded	 0 0	Rescheduled to 2018/2019

					is essential for the transition process from stand-alone to integrated systems. It will equip the ICT staff with the crucial skills for systems	Activity not funded	0	
					Training on administrative professionals - programme designed to equip Administrative Professionals with the necessary skills and techniques for effective goal setting, prioritizing, decision making and	Activity not funded	0	

					relationship management Training of the Customer Care & Office Assistants - Gain knowledge in customer service and communications skills. Enhance professionalism, confidence and a positive attitude in customer service by monitoring and influencing customer expectations that will produce positive results. Training on	Activity not funded	0	

					Project Communication and Information Sharing for communications officers - The course is essential for mapping and communicating to key internal and external stakeholders and to effectively report on project progress	Activity not funded	0	
						Activity not funded	0	
					Training on Procurement for Donor Funded Projects Course. This will enable the procurement officer			

					carry out the procurement processes using the donor funds effectively and efficiently. Training on public financial management reforms, IFMIS international public sector accounting standards (IPSAS) and project finance for donor funded projects			
Strengthening M & E and Reporting	A well designed M & E Frame work	M & E Reports	4	Design and implement an M & E frame work both at National and Count	.Engage a Consultant to develop an M&E framework at National and County level	Discussions between PFMR Sectretariat and RDE undertaken	0	

				y level	for six (6) months. (120 days)	Will be done upon finalization of the M&E framework	0	
				Undertake M&E of PFMR Strategy 2017/2018	Train stakeholders on the M&E framework (hold a retreat with implementing agencies and stakeholders to train and sensitize them on the M&E framework)	Two (2) missions conducted		Two M&E missions and retreats on preparation of the KGSP End Term Evaluation report and updating of the M&E framework of the PFMR Strategy 2013/2018
	Increased awareness of PFM reforms and the Strategy increased	Proportion of key stakeholders aware of PFM reforms			Conduct 2 M&E Missions at National and County Government departments	Two retreats undertaken		
				Printing of the PFM reforms strategy 2013-2018, PFM	Two retreats for report writing for M&E	Will be done		

	Increased awareness of PFM legislations	Improved compliance and reporting		Act 2012, PPAD Act 2015, Project Completion Report Dissemination and Sensitization of PFM Strategy 2013-2018, PFM Act 2012, PPAD Act 2015, Project Completion Report and Impact Assessment Report	for 5 days at (payment of venue and conference facility for secretariat staff) Printing of Communication Strategy Printing of Operations Manual Printing of Project Completion Report Sensitization of PFM Strategy 2013 - 2018, PFM Act 2012, PPAD Act 2015, Project Completion Report	upon finalization of the Communication Strategy and the Operation Manual Will be done upon finalization of the new PFMR Strategy 2018-2023		

3.10.4 Budget Performance

The PFMR Secretariat had a balance of Kshs 16,000,000 from 2016/2017 allocation which was carried forward to 2017/18. The Department was allocated Kshs 3,987,500 in 2017/18. The total amount for 2017/2018 for the department was thus Kshs 19,987,500. As at 30th June, 2018 the department had spent Kshs 7,129,839 representing an absorption rate of 35.67 percent. As at October 2018, the department had spent Kshs 7,906,839 representing an absorption rate of 39.56 percent. The main reason for the low absorption rate is late finalization and approval of the work plan. The work plan approval and disbursement of funds was done in December, 2017.

4.0 CONCLUSION AND WAY FORWARD

It is worth noting that, despite the late start of implementation of the work plans, most of the implementing departments managed to undertake some activities in the work plan.

A notable deviation in implementation of the work plan was that most of the activities had not been implemented by the end of the financial year. In other departments implementation was ongoing by end of 2017/18. This is attributed to late approval of the work plan which was approved in December, 2017. The lateness in approval was occasioned by various consultations aimed at improving the quality and level of details in the work plans. Further, most of the activities for 2016/17 were also rolled over to 2017/18. This created a challenge in implementation of the planned activities due to the limited time.

The other deviation was that, the absorption rate across all implementing agencies was low. The overall absorption rate in the programme was forty one (41%) by end of 2017/18. This is attributed to late disbursements occasioned by late approval of the work plan. Disbursement of funds was done in December, 2017. Further, most of the funds for 2016/17 were carried forward to 2017/18. The late disbursement necessitated limited time of implementation and thus the low absorption rates.

Going forward, there is need to prepare and submit work plans in good time for approval by RDE. This will ensure timely start of implementation of planned activities. This will also reduce the pending activities by end of the financial year. The timely approval of the work plans will lead to timely disbursement of funds. This will impact positively on the absorption rates.

5.0ANNEX 1: DED ANNUAL TARGETS

Output 1		1. Enhanced Re venue Collection			
Output indicator 1.1		Taxes as a percentage of GDP			
Baseline 2013	**Year 2016**	**2017**	**2018**	**2019**	**Target 2020**
24.1%	**16.7** **<u>Status</u>** *Taxes as a percentage of GDP stands at 16.8% in 2016/2017*	**17.7** **<u>Status</u>** *Taxes as a percentage of GDP stands at 17.7% in 2017/2018*	**18.1**		
Output 2		**2. Accurate accessible and timely government wide financial information and reports with clear accountability**			
Output indicator 2.1		Timely, accurate and reliable financial data for managers and reports as per legal requirements (In-year monitoring reports covering both financial and non-financial data, consistent with PBB produced regularly			
Baseline 2013	**Year 2016**	**2017**	**2018**	**2019**	**Target 2020**
No framework for monitoring in place	Development of a framework for reporting **<u>Status</u>** *Public Sector Accounting Standards (financial reporting framework) developed and operationalized*	All MDAs and County Governments produce annual and semi-annual reports **<u>Status</u>** *All MDAs and County Governments produce annual and semi-annual reports*	All MDAs and County Governments produce annual and semi-annual reports	All MDAs and County Governments produce annual and semi-annual reports	Review implementation of the framework All MDAs and County Governments produce annual and semi-annual reports

Output 3		**3. Accurate, user friendly and timely independent audit reports based on a risk-based approach**			
Output indicator 3.1		Risk based audit approach implemented (percentage of all audits conducted using the risk-based approach methodology)			
Baseline 2013	**Year 2016**	**2017**	**2018**	**2019**	**Target 2020**
20%	**100%** **<u>Status</u>** *In 2016, 100% of Audits were using Risk Based Audit Methodology*	**100%** **<u>Status</u>** *In 2017, 100% of Audits were using Risk Based Audit Methodology*	**100%**	**100%**	**100%**
Output 4		**4. Strengthened capacity for public procurement and disposal oversight**			
Output indicator 4.1		Share/ percentage of Government Procurement Entities using electronic procurement			
Baseline 2013	**Year 2016**	**2017**	**2018**	**2019**	**Target 2020**
No entity on e-procurement	MDAs on IFMIS e-procurement module **<u>Status</u>** *All Ministries and State Corporation are on e procurement*	Develop user specifications for an ERP, Procure & Contract **<u>Status</u>** *A draft e-Procurement Strategy and Roadmap prepared*	Develop operational manuals and train all entities	All public entities use e-procurement	All public entities use e-procurement
Output 5		**5. A functional monitoring and evaluation framework for the PFM Reforms Strategy in place**			
Output indicator 5.1		A functional M&E framework for the PFM Reforms Strategy			
Baseline 2013	**Year 2016**	**2017**	**2018**	**2019**	**Target 2020**

	Preparation of framework **<u>Status</u>** *An M&E framework developed awaiting rollout. Discussions have taken place with RDE-M&E consultants regarding the approach to be used in developing an automated M&E system*	Quarterly and annual progress reports **<u>Status</u>** *Quarterly and annual progress reports prepared*	Quarterly and annual progress reports	End term review report, Quarterly and annual progress reports	Quarterly and annual progress reports

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-1: Aggregate expenditure outturn	B	B	The B score in the 2012 assessment is not directly comparable, because aggregate expenditure under the 2011 PEFA Framework excluded interest on debt and expenditure financed by donors' funds.
PI-2: Expenditure composition outturn	C+	D+	Scores are not comparable due to differences in scope.
PI-3: Revenue outturn	B	B	Performance unchanged. Scores are broadly comparable.
PI-4 (PI-5 in 2011 Framework): Budget Classification	C	C	Performance unchanged. The scoring criterion is comparable, The Standard Chart of Accounts was established.
PI-5 (PI-6 in 2011 Framework): Budget documentation	C	D	Performance unchanged. The scoring criterion changed, and the scores are not directly comparable. Applying the 2016 PEFA methodology to the 2012 situation would, however, result in a D rating, the issue being the lack of information on actual expenditure in the previous year.
PI-6 (PI-7 in 2011 Framework): Central Govt. operations outside financial reports.	D	D*	Performance unchanged in terms of scores. The methodologies are different, so direct comparison is not possible. Nevertheless, there has been some improvement due to the establishment of school audits and the accountability of schools to Boards of Management.
PI-7 (PI-8 in 2011 Framework): Transfers to Sub-National Governments	B	C+	Change in performance is not possible to assess due to the complete change in the sub-national government system.
PI-9 (PI-10 in 2011 Framework): Public access to fiscal information.	B	B	Performance has fallen. The methodology is different, but comparability is possible with regard to timeliness of OAG reports available to the public. It now takes more than one year after the end of the previous FY for the reports to be completed and publicized. At the time of the 2012 assessment, it took less than one year.
PI-10: Fiscal Risk Reporting (PI-9 in 2011 PEFA Framework)	C	D+	Performance unchanged. The scoring criteria are more tightly specified in the 2016 Framework.

PI-13: Debt Management (PI-17 (ii) and (iii) under 2011 Framework	B+	B+	Performance improved, though scores the same. Reconciliation is still an issue (13.1).Performance under 13.3 has strengthened, with PDMO now conducting its own DSAs.
PI-17.3: Timeliness of submission of draft budget to Parliament. (PI 27-iii in 2012 PEFA assessment); & PI-18.3: Timeliness of approval of draft budget by Parliament (PI 11 (iii) in 2012 PEFA assessment)	D	A	Performance improved due to the draft budget being submitted to Parliament by 30th April each year (17.3), as required by PFMA. This has enabled the budget to be approved by Parliament by 30th June each year (18.3), which is the end of FY.
PI-19.1: Revenue administration, Rights & obligations for revenue measures (PIs 13(i)-(iii) in 2011 PEFA Framework).	B+	C	Performance improved due to: -Strengthened legislation: (i) 2015 Taxpayer Procedures Act, which harmonizes the procedures under each tax law; (ii) the 2013 Tax Appeals Tribunal Act, which establishes a Tax Appeals Tribunal, bringing appeals procedures per tax type under one body; (iii) updated and simplified Income and VAT Acts; and (iv) establishment of a separate Excise Tax Act. - Establishment of a modern, fully integrated tax administration system (iTax) in place of the old legacy system. Establishment had just started at the time of the 2012 PEFA assessment. Most of its modules are now operational, making it easier for taxpayers to obtain information and facilitated by the large increase in the use of mobile phones with internet access. The score in the 2012 PEFA assessment may have been too high.
PI-22: Expenditure arrears	C+	C+	Performance improved under 22.2, due to the establishment of an age profile of arrears earlier in FY 2015/16. This was a structural benchmark under Standby Arrangement/Standby Growth Facility with IMF. The scoring criteria are different between the 2011 and 2016 PEFA methodologies. Change is assessed by applying the 2016

			PEFA methodology to the situation at the time of the 2012 PEFA assessment.
PI-23: Payroll control	B+	B	Performance improved due to establishment of the Government Human Resource Management Information System (GHRMIS) in MSPS. MDAs can upload their calculated payroll into this for upload into IFMIS for payment, and check the payroll against the staff establishment list. The score in the 2012 PEFA assessment was too high.
PI-24: Procurement	C	A	Performance improved. - (i) Use of competitive tendering procedures is now the norm for procurement amounts above the threshold; e-procurement ('procurement to pay'} has been established, though not fully functional yet. - (ii) Procurement information available to the public has increased in scope; - (iii) Procurement entities are routinely submitting procurement operational data to the Public Procurement and Regulatory Authority (PPRA), as required by the revised procurement law (December 2015). The 2016 PEFA Framework methodology differs from the 2012 methodology in some respects. The 2016 Framework has been applied to the situation in 2012 in order to assess performance change.
PI-25.3: Controls on non-salary expenditure; Compliance with payments rules & procedures	C	A	Performance improved, mainly due to the re-engineering of IFMIS, which was only just beginning at the time of the 2012 PEFA assessment. - The methodology for 25.3 is different from that of PI-20 (iii) in the 2011 PEFA Framework, which was much less specifically defined. The 2016 Framework has therefore been applied to the situation at

			the time of the 2012 Framework. The overall score then would have been B, relative to the overall B+ score in this assessment.
PI-26-4: Internal audit (PI-26 (iii) 2012 assessment)	C	D*	Performance seems to have improved in terms of follow-up. However, the team was not able to collect the necessary information from the IADs in the MDAs. The IAG has not been collecting the information, because of its apparently diminishing quality assurance role.
PI-27: Financial integrity 27.1. Bank reconciliation 27.4 Financial data integrity processes	 D D	 B B	Performance improved due to re-engineering of IFMIS, expansion of internet banking, and establishment of an Information System Office in NT.
PI-28.3: Accuracy of in-year budget performance reports	C	B	Performance improved due to IFMIS re-engineering and establishment of Office of Controller of Budget, which led to an improved quality of quarterly reports.
PI-29.1: Completeness of annual financial reports PI-29.3: Accounting standards	D D	B B	Performance improved due to IFMIS re-engineering and adoption of IPSAS cash.
PI-30.1 Audit coverage & standards PI 30.2 Timeliness of submission of audit reports to Parliament PI-30.3. Audit follow-up	C C D	B D D* *	Performance improved due to IFMIS expansion Timeliness has weakened. Insufficient information to score.
PI-31: Legislative oversight	C+	D	Performance appears to have weakened due to increasing delays in the reviewing of audit reports by the Public Accounts Committee. These delay hearings and the preparation of recommendations.

PI-31.4: Transparency of legislative scrutiny of audit reports		C (new)	Performance improved due to posting of Public Accounts Committee proceedings on Parliamentary website.

6.0ANNEX 2: SUPPORT TO PFMR STRATEGY - DANIDA FINANCIAL POSITION FROM JULY 2017 TO JUNE 2018

AGENCY	INITIAL ALLOCATION	COMMITMENT	BALANCE JUNE 30, 2017	RE - ALLOCATION 2017/2018	FINAL ALLOCATION	ACTUAL EXPENDITURE JULY 2017 - JUNE 2018	BALANCE	UTILIZATION %
Ministry of Devolution & Planning	9,000,000.00	**-**	9,000,000.00	6,000,000.00	15,000,000.00	3,220,360.00	11,779,640.00	21.47
Macro & Fiscal Affairs	8,000,000.00		8,000,000.00	3,500,000.00	11,500,000.00	216,999.00	11,283,001.00	1.89
D-ASQA	47,500,000.00	-	155,334.00	40,000,000.00	40,155,334.00	21,255,711.34	18,899,622.66	52.93
IFMIS	15,000,000.00		15,000,000.00	16,000,000.00	31,000,000.00	11,472,516.00	19,527,484.00	37.01
OCOB	15,000,000.00	-	6,153,000.00	15,000,000.00	21,153,000.00	10,005,250.00	11,147,750.00	47.30
IGFRD	-	1,000,000.00		10,000,000.00	10,000,000.00	4,195,364.00	5,804,636.00	41.95
OAG	25,000,000.00	-	25,000,000.00	50,000,000.00	75,000,000.00	34,815,347.00	40,184,653.00	46.42
KRA	30,000,000.00	-	30,000,000.00	25,000,000.00	55,000,000.00	27,100,246.20	27,899,753.80	49.27
PFMR Secretariat	16,000,000.00	-	16,000,000.00	3,987,500.00	19,987,500.00	7,129,839.00	12,857,661.00	35.67
IAD	15,000,000.00	-	15,000,000.00	15,000,000.00	30,000,000.00	7,723,662.00	22,276,338.00	25.75
Unallocated	-	-	-	7,384,438.80	-	-	-	
TOTALS	**180,500,000.00**	**1,000,000.00**	**124,308,334.00**	**191,871,938.80**	**308,795,834.00**	**127,135,294.54**	**181,660,539.46**	**41.17**

Note: *Actual receipt was Kshs. 191,871,938.80 and not Kshs. 195,000,000.00 and thus the actual unallocated balance is Kshs. 7,384,438.80 and not Kshs. 10,512,500.00*

7.0 ANNEX 3: SUPPORT TO PFMR STRATEGY - DANIDA FINANCIAL POSITION FROM JULY 2017 TO OCTOBER 2018

AGENCY	INITIAL ALLOCATION	BALANCE JUNE 30, 2017	RE - ALLOCATION 2017/2018	FINAL ALLOCATION	COMMITMENTS	ACTUAL EXPENDITURE JULY 2017 - OCT 2018	BALANCE	UTILIZATION %
Min Devolution & Planning	9,000,000.00	9,000,000.00	6,000,000.00	15,000,000.00	-	3,220,360.00	11,779,640.00	21.47
Macro & Fiscal Affairs	8,000,000.00	8,000,000.00	3,500,000.00	11,500,000.00	-	216,999.00	11,283,001.00	1.89
D-ASQA	47,500,000.00	155,334.00	40,000,000.00	40,155,334.00	-	21,255,711.34	18,899,622.66	52.93
IFMIS	15,000,000.00	15,000,000.00	16,000,000.00	31,000,000.00	-	11,472,516.00	19,527,484.00	37.01
OCOB	15,000,000.00	6,153,000.00	15,000,000.00	21,153,000.00	-	19,704,390.00	1,448,610.00	93.15
IGFRD	-		10,000,000.00	10,000,000.00	-	5,464,364.00	4,535,636.00	54.64
OAG	25,000,000.00	25,000,000.00	50,000,000.00	75,000,000.00	19,500,000.00	65,151,952.00	9,848,048.00	86.87
KRA	30,000,000.00	30,000,000.00	25,000,000.00	55,000,000.00	-	27,520,246.20	27,479,753.80	50.04
PFMR Secretariat	16,000,000.00	16,000,000.00	3,987,500.00	19,987,500.00	-	7,906,839.00	12,080,661.00	39.56
IAD	15,000,000.00	15,000,000.00	15,000,000.00	30,000,000.00	-	7,723,662.00	22,276,338.00	25.75
Unallocated	-	-	7,384,438.80	-	-	-	-	
TOTALS	**180,500,000.00**	**124,308,334.00**	**191,871,938.80**	**308,795,834.00**	**19,500,000.00**	**169,637,039.54**	**139,158,794.46**	**54.94**

Note: *Actual receipt was Kshs. 191,871,938.80 and not Kshs. 195,000,000.00 and thus the actual unallocated balance is Kshs. 7,384,438.80 and not Kshs. 10,512,500.00*